



# What Lies Ahead

*Frank Kendall*



I usually write about acquisition policy and best practices, but given our current circumstances I felt I should provide you with some thoughts on the highly unusual and unfortunate budget situation we face.

I want to begin by thanking everyone who works in defense acquisition, technology, and logistics for all the hard work, dedication, professionalism, and, increasingly, the patience and fortitude that you display. This includes our military personnel and government employees and also our industry partners. We provide our warfighters with the best equipment in the world, and we sustain and support that equipment so our warfighters know they can count on it when they need it. We all know we aren't perfect—there is room to be more efficient, and all of us can learn from our experiences, education, and training and become more capable. Nonetheless, all of us work hard every day to provide capability to our warfighters and value to the American taxpayers who provide us with the resources for which we are stewards.

In the next few months and possibly years, our work ethic, dedication, and professionalism, and, yes, our patience and fortitude are going to be needed. I started my military career in 1966 as an ROTC cadet. A year later I entered West Point and, while I didn't serve in Vietnam, I did serve during the turmoil of the Vietnam era and in the aftermath. Later I served in the Pentagon during the final years of the Cold War as the Goldwater-Nichols Act was being implemented. I was in the Pentagon for the first few years of the transition after the fall of the Berlin Wall. After that, I experienced the defense drawdown of the 1990s from industry's perspective. In all my experience, I have never seen a situation like the one we are trying to cope with today. After Vietnam, and again after the Cold War, the Department of Defense went through a period of transition that included major changes in defense budgets and force composition. But today we are confronted with the most difficult defense planning and management situation I ever have seen.

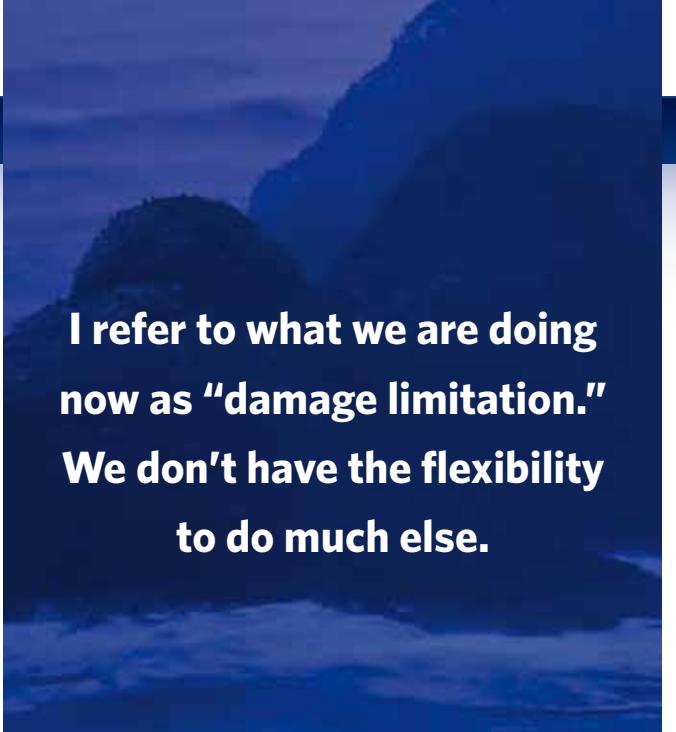
What makes this environment so difficult in part is the uncertainty and the lack of stability in our budgets and, therefore, in our planning activities. Defense is a cyclical business—budgets do not follow a

straight line but generally correlate to perceptions of national security needs. Today we are looking at sharp reductions in our budgets—not because threats to our national security are diminished (in fact, the opposite is true) but because of concerns about annual deficit levels and the size of the national debt, and the resulting political gridlock about how to address these issues. The sequestration mechanism was put in place to try to force Congress out of this gridlock and to obtain a \$1.2 trillion reduction in projected deficits. Former Deputy Secretary of Defense Bill Lynn said before he left the department that “the idea of sequestration was to be so crazy nobody would ever let it happen, and they did a really good job.” Not good enough, apparently.

Like most people in the national security community, I did not expect sequestration to be implemented in January 2013. Technically, I was right—it was deferred a few months. But, in the larger sense, I was wrong. I won’t belabor this, but after the tax bill passed in January it was clear that Congress would not reach an agreement to avert sequestration permanently before it went into affect.

During the long period leading up to sequestration, the administration and the leadership of the department, military and civilian, argued against sequestration and its devastating impact on our military. That impact is real, and everyone working in any aspect of defense acquisition reading this article knows this. Sequestration never was going to arrive with the sound of trumpets and stacks of contract termination notices and reduction-in-force announcements; it comes more like a steady rain that doesn’t stop rather than like a hurricane. But the water keeps rising. Every week we compile a list of the actions being taken to absorb the cuts. Individually, they are not dramatic: training not conducted, buildings not furnished or repaired, maintenance on equipment deferred. The cuts are distributed all across the department, and there are thousands of them. In FY2013, the sequestration mechanism gave us no choice about where to absorb the nearly \$40 billion of spending we have to eliminate. I refer to what we are doing now as “damage limitation.” We don’t have the flexibility to do much else.

We are using reprogramming requests to address our greatest readiness needs and some high-priority investment needs, but serious shortfalls will remain. Many of the things we are doing amount to a decrease in our productivity (stretched-out development programs, reduced economic production quantities) and work deferred into future budgets. Probably worst of all is the impact sequestration will have on the readiness of the force, now and into the future. As a former Army officer who lived the readiness crisis of the 1970s in a combat arms unit in West Germany, I understand the fragility of readiness and what it takes to recover once people and equipment have lost their edge.



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As I write, we also are on the path to implementing furloughs that will make almost \$2 billion available for our highest-priority remaining shortfalls. I want you to know that Secretary Chuck Hagel worked very hard to find a way to avoid taking this step. In the end, he felt he had no choice, and he made the difficult decision to proceed with as minimal a level of furloughs as possible. We know how difficult this will be for our workforce, particularly those in the lower pay scales. Senate-confirmed political appointees like me are not legally subject to furloughs, but many (if not all) of us, including me, will be sacrificing an equivalent share of our pay. The department’s leadership will continue to look for ways to reduce this burden.

What will happen next? Our hope, and the administration’s goal, is a political compromise that will resolve the impasse in the Congress and detigger sequestration. The next forcing function for such a deal might be the requirement to raise the debt ceiling that Congress will confront in the late summer or early fall. Even if an agreement can be reached, that will be very late to impact FY2013 spending. I’m afraid there is a good chance that the debt ceiling issue will be resolved without a grand bargain that allows Congress to remove the remaining 9 years of sequestration (\$50 billion a year). As a result, sequestration may stay in place as the default mechanism determining the level of our resources.

As I write, the department is nearing the conclusion of the Strategic Choices Management Review that Secretary Hagel directed Deputy Secretary Ashton Carter and Gen. Martin Dempsey to lead. This review is assessing the implications of significantly reduced budgets for the department. The current budget options on the table include the House of Representatives’ budget resolution that does not cut defense, the Senate Budget Resolution that removes about \$250 billion (mostly outside the Five Year Defense Plan [FYDP]), and the President’s Budget Submission, which removes about \$150 billion

(also mostly outside the FYDP). Sequestration of course removes \$50 billion per year, starting immediately. Under the circumstances, it is only prudent to assess the implications of significant reductions. The FY2014 budget that the president submitted is consistent with the Security Strategy that we announced in 2012 and provides for the resources the administration believes are needed for national security.

The frightening scenario that may confront us looks like this: Congress remains gridlocked and the uncertainty about future budgets continues at least through FY2014. We start FY2014 under a Continuing Resolution (CR) that funds the department at the FY2013 level. The funds we now are executing in FY2013

already include cuts to the levels required by sequestration, and that is the level we would receive under a CR. In effect, sequester already would be built into an FY2014 CR. Under a CR, the department still would be constrained to keep funds in the same budget accounts, but not as constrained as we were this year where essentially each budget line had to take the same reduction. In this scenario, Congress does not have to determine where the cuts occur; it can leave that politically painful task to the sequestration mechanism and the department. If past experience is any guide, Congress also may not allow the department to take some of the steps (such as Base Realignment and Closure [BRAC] and early ship retirements) it needs to take to eliminate low value added or unneeded expenses.

## Kendall Kicks Off Better Buying Power 2.0

Better Buying Power 2.0 got its official kickoff April 25 at the Defense Acquisition University's Howell Auditorium at Fort Belvoir, Va. Under Secretary of Defense for Acquisition, Technology and Logistics Frank Kendall reviewed the approaches detailed in a memorandum and guidance sent the previous day to secretaries of the Military Departments and other Defense Department officials.

Kendall said there had been progress through BBP to maximize effective use of existing funds, but "we can do better. . . . In a time of shrinking budgets, we must try to do more with less."

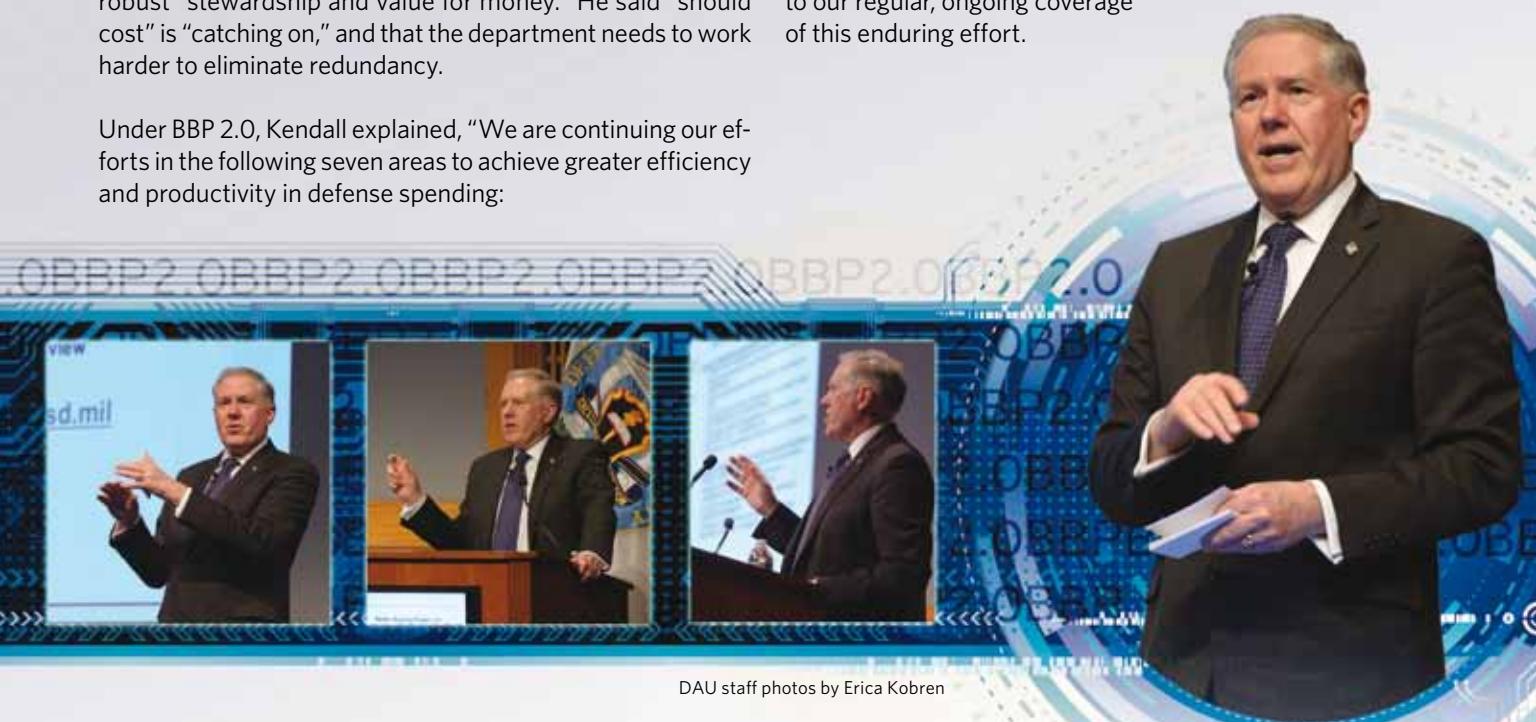
Kendall said, "What we are talking about is a culture change." In the past, agencies worked "to protect the budget, spend, and get contracts awarded." Now, he said, there must be robust "stewardship and value for money." He said "should cost" is "catching on," and that the department needs to work harder to eliminate redundancy.

Under BBP 2.0, Kendall explained, "We are continuing our efforts in the following seven areas to achieve greater efficiency and productivity in defense spending:

- "Achieve affordable programs.
- "Control costs throughout the product life cycle.
- "Incentivize productivity and innovation in industry and government.
- "Eliminate unproductive processes and bureaucracy.
- "Promote effective competition.
- "Improve tradecraft in acquisition of services.
- "And improve the professionalism of the total acquisition workforce."

Following his remarks, Kendall answered questions from the overflow audience in the auditorium.

**Coming up:** Defense AT&L magazine is preparing a coming issue focused on the department's new initiative, in addition to our regular, ongoing coverage of this enduring effort.



DAU staff photos by Erica Kobren

I think this is the worst-case scenario the acquisition community needs to be prepared to manage through, until we know more or receive other guidance. Will furloughs be necessary under this scenario? I don't know. I can promise that the department's leadership will do whatever it can to avoid them. Under this scenario, we still will not know what the department's ultimate budget levels will be. This uncertainty will make long-term planning all but impossible. We will have our share of challenges in defense acquisition.

In normal times, the resources are balanced by the department's budget among force structure (the size and composition of the force), readiness (training and maintenance), and investment (research and production of equipment to modernize and recapitalize the force structure). Each of these major spending categories depends on the other; a healthy Department of Defense keeps them in balance. When that balance is skewed for any length of time, the result is a "hollow force," such as the one I experienced in the 1970s when readiness was underfunded for a period of years. In addition to not knowing what size force to design the department around and resource, the precipitous cuts required by sequestration compound the problem. Force structure cannot be reduced overnight; it takes time to bring the force down. Because of that fact, immediate cuts fall on other parts of the budget—readiness or investment. Today we are at war,

and the readiness of our deployed units and those preparing to deploy is of the highest priority. That leaves investment, which has to absorb a disproportionate part of the reductions until force structure is reduced. Remember, however, that in this scenario we lurch into FY2014 under a CR with no resolution of the long-term budgets we can expect and, therefore, no clear indication of how far our force structure should be reduced or how quickly. Finally, just to make matters worse, we also have the problem of the work we deferred in FY2013 as we were trying to absorb the sequestration cuts in the last half of the fiscal year. We will have to adjust our FY2014 plans to take this deferred work into account.

I have written this piece for two reasons. One reason is to let you know how I see the situation and what we need to be prepared for. The second is to again thank you for all that you do, and will do, for our country. I'm afraid that more is about to be asked of us. I say "us" because of my background and because my intention is to be with you through the next several years. The Defense Department's total acquisition community, and the industrial base that is part of that community, provide two of the three pillars of the department; we are not the warfighting force itself, but that force's technological superiority and rate of recapitalization, and its material readiness levels, will depend on how well we do our jobs in the difficult months that may lie ahead.



## Where Can You Get the Latest on the **Better Buying Power** Initiatives?

- BBP Gateway (<https://dap.dau.mil/bbp>) is your source for the latest information, guidance, and directives on better buying power in defense acquisition
- BBP Public Site (<https://acc.dau.mil/bbp>) is your forum to share BBP knowledge and experience